

Atlantic City Tourism Performance Indicators (AC-TPI)

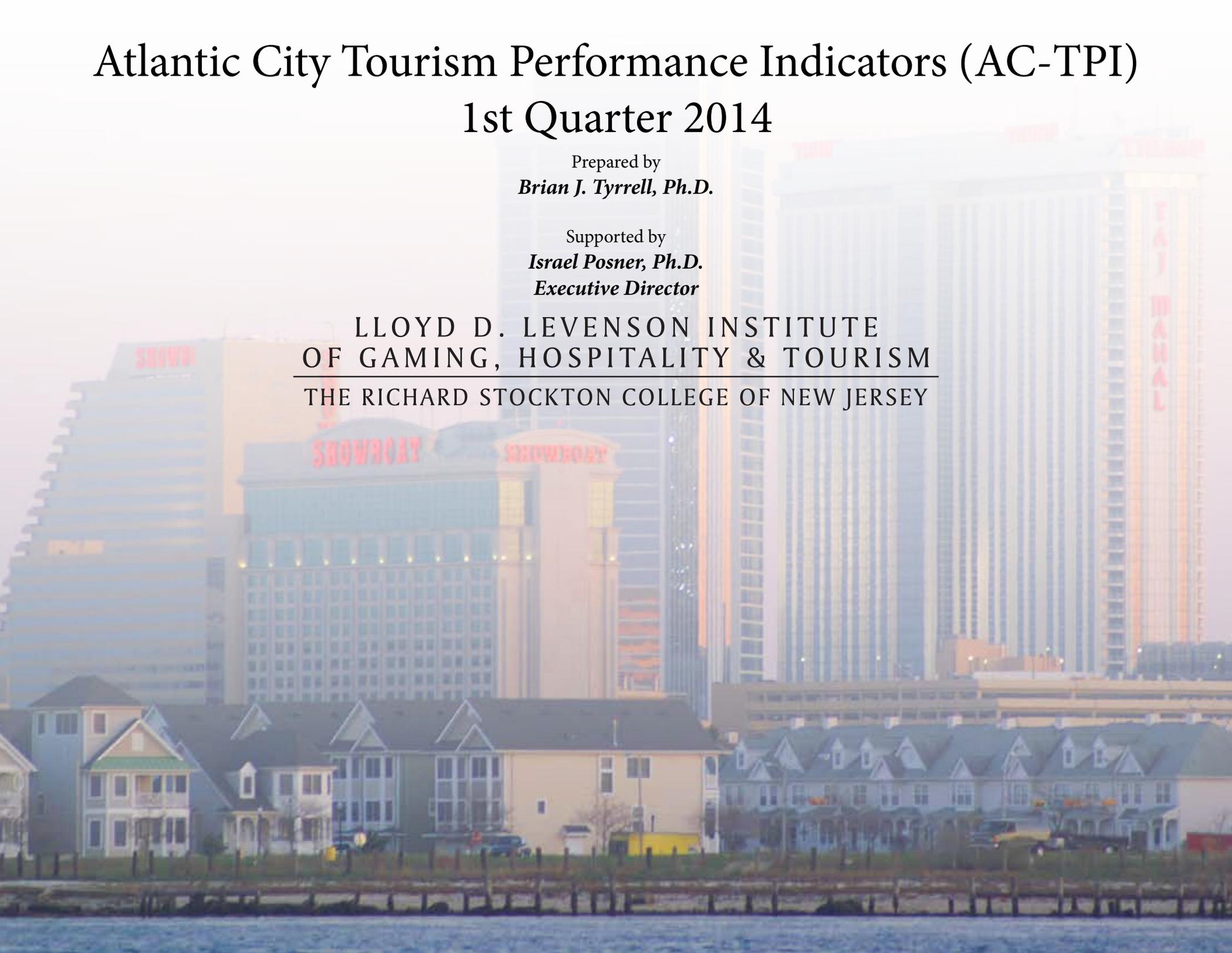
1st Quarter 2014

Prepared by
Brian J. Tyrrell, Ph.D.

Supported by
Israel Posner, Ph.D.
Executive Director

LLOYD D. LEVENSON INSTITUTE
OF GAMING, HOSPITALITY & TOURISM

THE RICHARD STOCKTON COLLEGE OF NEW JERSEY



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April 5, 2014

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Acknowledgements

The Lloyd D. Levenson Institute of Gaming Hospitality & Tourism (LIGHT) and the authors of this report, Dr. Brian Tyrrell and Dr. Israel Posner, would like to thank the many individuals and organizations in the Atlantic City region and throughout New Jersey for their contributions to this report. In particular, the New Jersey Casino Control Commission was invaluable in providing the bulk of the data for this report. The LIGHT board members' contributions were instrumental to the completion of this report and their ongoing support is much appreciated. Their review, feedback and encouragement are evident throughout this report and it quite simply could not have been completed without their support. Thanks to all that contributed in the past and those that will likely add to that contribution in the future. We are indebted to you for your support.

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Introduction

Gross Gaming Revenue (GGR) in Atlantic City has largely been declining since 2006 when GGR peaked at \$5.2 billion. As competition for the gaming dollars of Northeast United States residents increased, Atlantic City has reacted by increasingly diversifying its destination offerings. The diversification of products and services to guests of the resort has brought about a renewed focus on increasing the entertainment, restaurant and shopping options for the visitor. This effort has been bolstered by an expanded marketing campaign, aided by state mandated investment by the casinos in a public-private partnership consisting of the Casino Reinvestment Development Authority (CRDA) and the Atlantic City Alliance (ACA) respectively. The ACA has since produced what many have come to know as the “DO AC” campaign, a campaign with a marketing focus that highlights the resorts’ entertainment, restaurants and shopping attractions.

It is clear, however, that as the resort transforms into a more full service destination, a measure of the progress of this transformation is increasingly necessary. Atlantic City’s performance should include criteria by which other destinations are measured. That necessarily includes highlighting the performance in the lodging, food and beverage, entertainment and other tourism related sectors. Strategic success of the resort’s current efforts requires a set of measures for investors and policy makers that measure the efforts at expanding the region’s tourism economy, not just gaming.

This report, the Atlantic City Tourism Performance Indicators or AC-TPI, provides some insight into the growth of this broader tourism economy by examining several taxes related to traveler accommodations, transportation, food services and drinking places, recreation and entertainment, and shopping. It is not the goal of this report to place a value on each of these measures, but rather to report the monthly changes in their values as compared to the prior year (YoY). In order to achieve this, tax revenue figures that closely track these key measures can serve as a reasonable proxy. The Atlantic City Luxury Tax and Parking Fee, and the Atlantic County Hotel Fee, are examined in the following sections. The tax revenue for all three measures are presented from 2005 to present. They are presented as monthly, quarterly and annually for this time period. The change from the same period the prior year is presented as well.

Atlantic City Luxury Tax

The Atlantic City Luxury Tax provides a very good surrogate for many of the non-gaming measures, namely alcohol, entertainment and traveler accommodation. According to the NJ Division of Taxation:

“The Atlantic City Luxury Sales Tax applies to the receipts from specified retail sales within Atlantic City, including sales of alcoholic beverages for on-premises consumption; cover, minimum, or entertainment charges; room rental in hotels, inns, rooming, or boarding houses; hiring of rolling chairs, beach chairs, and cabanas; and tickets of admission within Atlantic City... The rate of tax is 3% on sales of alcoholic beverages sold by the drink and 9% on other taxable sales. The maximum combined Atlantic City rate and New Jersey State sales tax rate (excluding the State occupancy fee) may not exceed 13% effective July 15, 2006. The State sales tax rate is reduced to the extent that the city rate exceeds 7%, and the maximum combined Atlantic City rate and New Jersey rate may not exceed 13%. Formerly, the maximum combined Atlantic City rate and the New Jersey sales tax rate could not exceed 12%.”

Figure 1 shows the Atlantic City Luxury Tax collections from January 2005 through March 2014. The most recent month showed an increase in Atlantic City Luxury Tax collections from \$2.7 million in March of 2013 to \$2.9 million in March of 2014. The graph shows the seasonal nature of the destination (and the tax), with more tax generated in the summer months, the historically busy months for the tourist destination of Atlantic City. While this tax has been trending upward over the most recent three years under examination in the chart, that trend is difficult to discern given this seasonal nature. The growth in the peak period (summer) months has been particularly notable.

Year over Year (YoY) change in the monthly Atlantic City Luxury Tax collections can also be tracked to show how each month compared to the same month the prior year. Figure 2 accomplishes this for the same study period. The most recent month's data, March 2014, reflects an 8% increase compared to March of 2013. A similar change was experienced in January of 2014 (8% increase), though February of 2014 was slightly less than February of 2013 (-1%).

Figure 1: Atlantic City Luxury Tax Collections, January 2005 through March 2014, \$millions

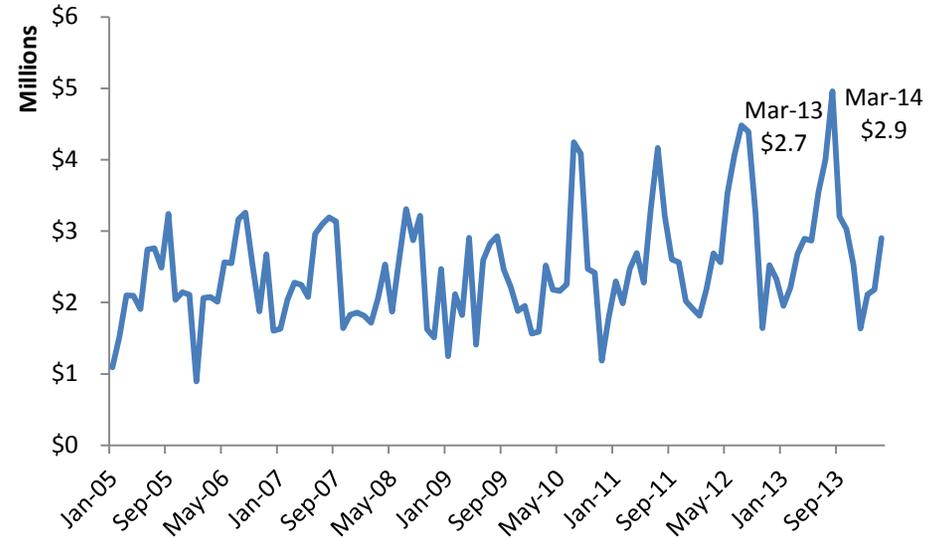
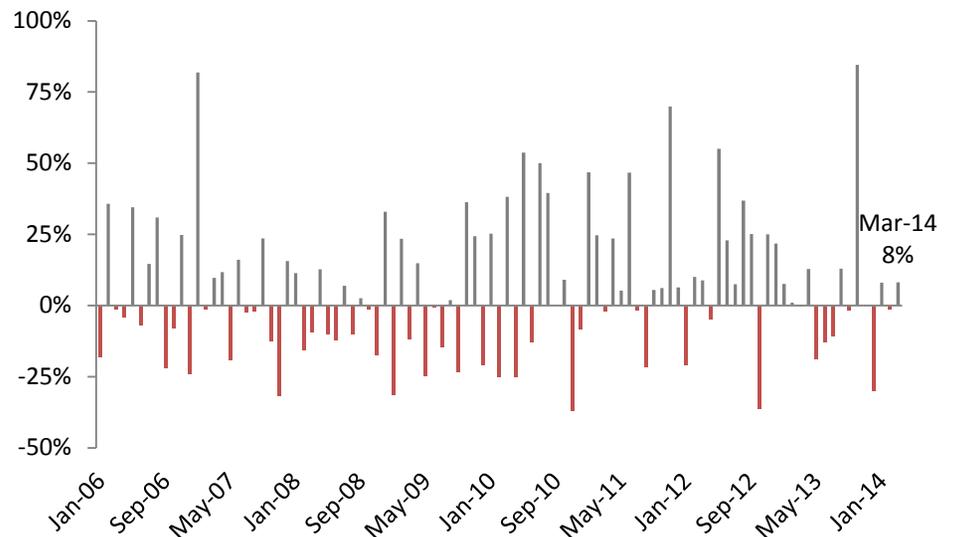


Figure 2: Year over Year (YoY) Change in the Atlantic City Luxury Tax Collections, January 2006 through March 2014



The seasonal trend is also discernible looking at the quarterly revenues (see Figure 3). The third quarter is always the strongest quarter of the year, and has increased in both of the past two years, reaching a record high in 2013 for any quarter at \$12.2 million. Meanwhile, the first quarter of 2014 increased from the prior year from \$6.8 million to \$7.2 million.

The first quarter gain amounts to a 5% increase compared to the first quarter of 2013 (see Figure 4). That marks the second quarter in a row of significant growth in the Atlantic City Luxury Tax collections. Indeed, these collections have increased in nine of the past twelve quarters.

Spending on taxable items subject to the Atlantic City Luxury Tax have largely been on the rise since 2010 (see Figure 5). Four consecutive years of growth in spending on items taxed under the Atlantic City Luxury Tax peaked with a very strong 2013 at \$35.5 million. And while this figure is only marginally above the 2012 figure (up 0.1%, see Figure 6), it is notable that both years are significantly higher than the \$26.4 million collected in 2009. And thus far this year, that increase continues. The growth in spending displayed by the Atlantic City Luxury Tax receipts over the past three years definitely speaks to a shift in the spending by the Atlantic City visitor. While Gross Gaming Revenue has declined, the resort is seeing strong growth in spending on the non-gaming destination amenities covered by the Atlantic City Luxury Tax.

In order to more clearly see the longitudinal trends, a twelve month trailing total is provided. This figure is the summation of each of the current month and prior eleven months. Figure 7 shows that the twelve month trailing total for the Atlantic City Luxury Tax has been steadily climbing throughout the study period, with the notable interruption in growth that followed the arrival of Hurricane Sandy in October of 2012. Indeed, the twelve month trailing total for March of 2014 of \$35.9 million was only higher once before, in November of 2013 at \$36.2 million.

Figure 3: Quarterly Atlantic City Luxury Tax Collections, 1st Quarter 2006 through 1st Quarter 2014, \$millions

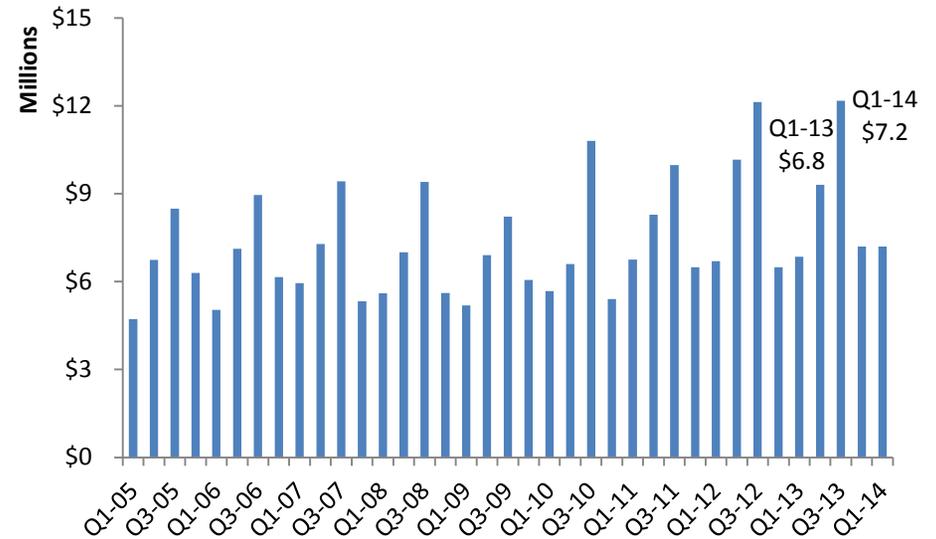


Figure 4: Year over Year (YoY) Change in the Quarterly Atlantic City Luxury Tax Collections, 1st Quarter 2006 through 1st Quarter 2014

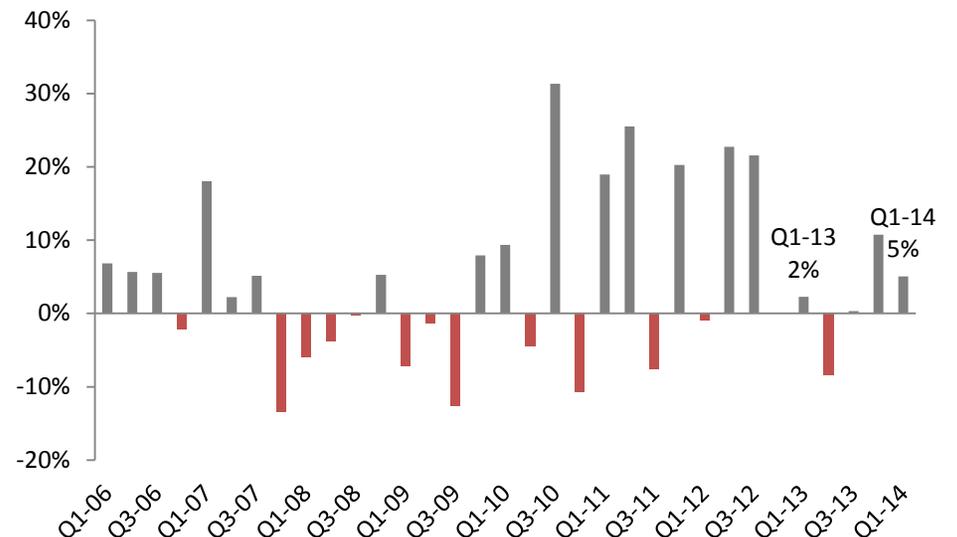


Figure 5: Annual Atlantic City Luxury Tax Collections, 2005 through 2014 Year to Date, \$millions

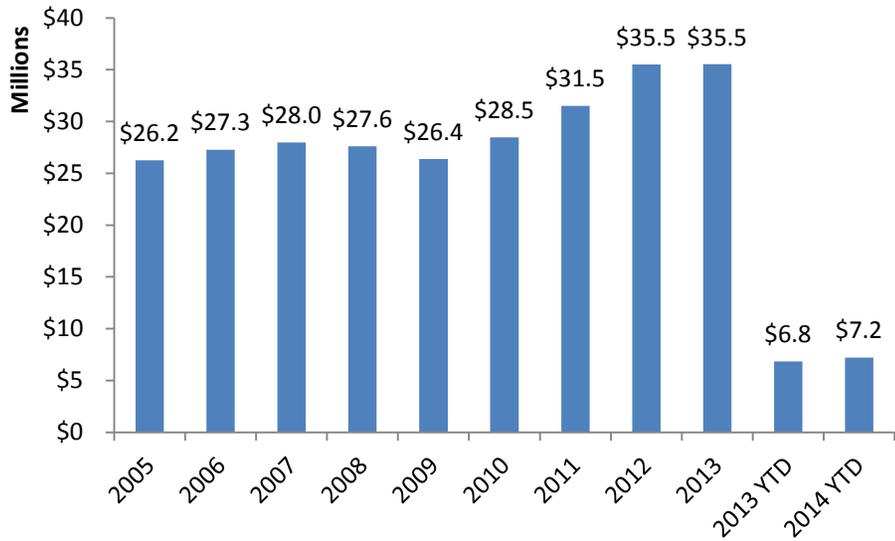


Figure 6: Year over Year (YoY) Change in the Annual Atlantic City Luxury Tax Collections, 2006 through 2014 Year to Date

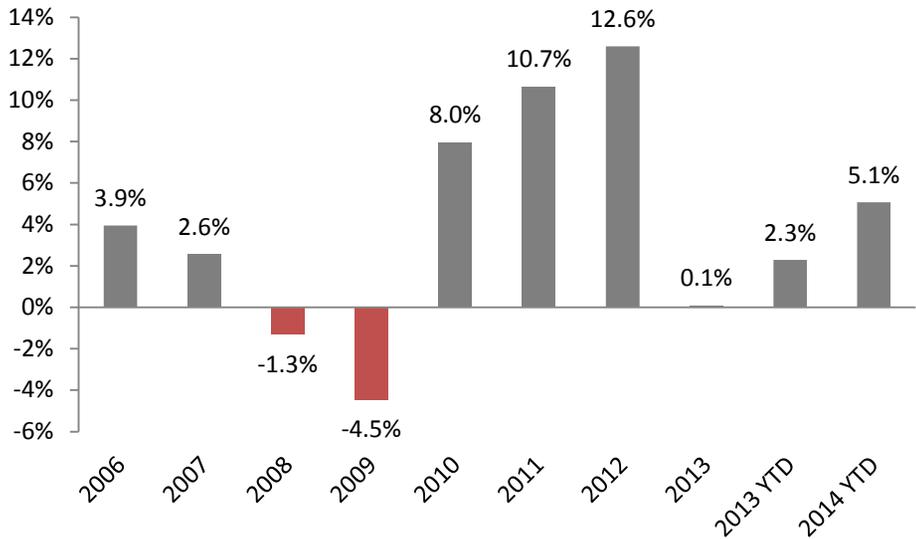


Figure 7: 12 Month Trailing Total for the Atlantic City Luxury Tax, December 2005 through March 2014, \$millions





Atlantic City Casino Parking Fee

The Casino Parking Fee figure is provided by the NJ Casino Control Commission (NJCCC). This figure serves as a surrogate for transportation, assuming that if the number of vehicles taxed has gone up or down, then so too will other expenditures on transportation to and from as well as within the resort. The tax is described by the NJCCC as:

“By law, casinos remit a fee of \$3.00 per day for each parking space used by patrons in their facility. \$0.50 of the parking fee is deposited into the Casino Revenue Fund, with the remaining \$2.50 forwarded to the Casino Reinvestment Development Authority for public projects in Atlantic City. The commission audits and certifies the amounts payable by each casino under the law.”

Figure 8 shows that the Casino Parking Fee is also seasonal in nature, peaking annually every July or August, similar to the Atlantic City Luxury Tax described in the earlier section. The highest month in this study period was August 2005 at \$3.7 million. Generally, the Casino Parking Fee has been trending downward since the introduction of gaming in Pennsylvania in 2006. Exceptions to this general decline however are present, beginning in late 2011. Indeed, the reversal of this trend may have occurred had it not been for the arrival of Hurricane Sandy.

An examination of the Year over Year change in the Casino Parking Fee on a monthly basis reveals a string of eleven consecutive months of declines following the arrival of Hurricane Sandy (see Figure 9). Indeed, the strong positive months that helped to end the year (October and November of 2013) were undoubtedly as a result of comparisons to the 2012 dates surrounding Hurricane Sandy being particularly low.

Despite the favorable comparisons that ended 2013, January, February and March of 2014 all showed declines from the prior year (2013). Undoubtedly the closing of the Atlantic Club casino in January played a major role in the declines of the first three months of 2014.

Figure 8: Casino Parking Fee, January 2005 through March 2014, \$millions

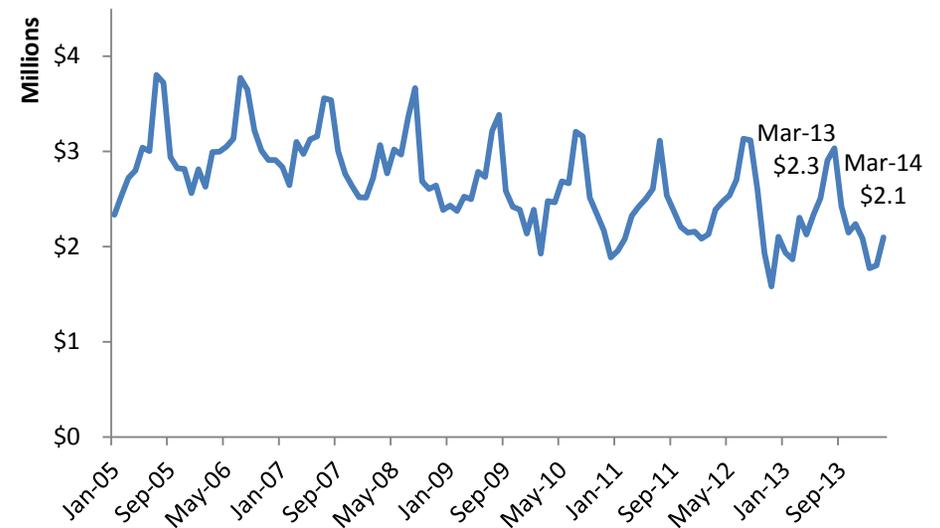
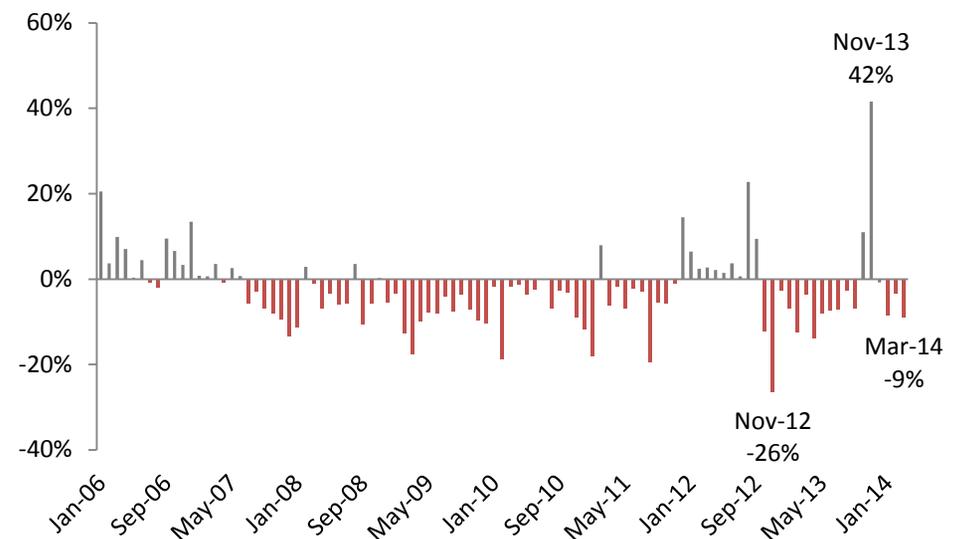


Figure 9: Year over Year (YoY) Change in the Casino Parking Fee, January 2006 through March 2014



All told, the first quarter of 2014 showed a decline from \$6.1 million in the first quarter of 2013 to the present figure of \$5.7 million (see Figure 10). That represents a decline of 7% year over year (see figure 11). Likely these declines will persist to some extent over the remainder of the calendar year in which comparisons to time when the Atlantic Club casino was open are to be made.

With the exception of 2012, collections of the Casino Parking Fee have been on the decline on an annualized basis since 2007 (see Figures 12 and 13). The year to date decline of 7.1% was a slightly smaller decline than that seen in 2013 through the first quarter (-7.5%).

Once again, it is instructive to look at a twelve month trailing total to discern the longer term trend in the Casino Parking Fee. This is accomplished in Figure 14. Here the picture is quite different than the analysis of the Atlantic City Luxury Tax in the prior section. The highest twelve month period in the study period was the twelve months ending June 2007, when the 12 months through June 2007 saw the Casino Parking Fee generate \$37.3 million. That figure is now at \$27.5 million for the twelve months ending in March of 2014, only slightly higher than the historic low for the Casino Parking Fee.

Figure 10: Quarterly Casino Parking Fee, 1st Quarter 2005 through 1st Quarter 2014, \$millions

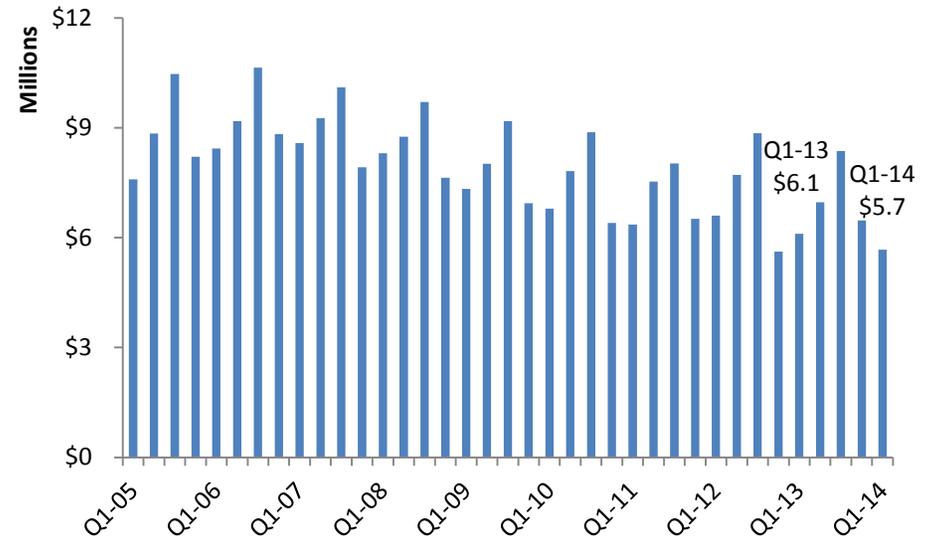


Figure 11: Year over Year (YoY) Change in the Quarterly Casino Parking Fee, 1st Quarter 2006 through 1st Quarter 2014

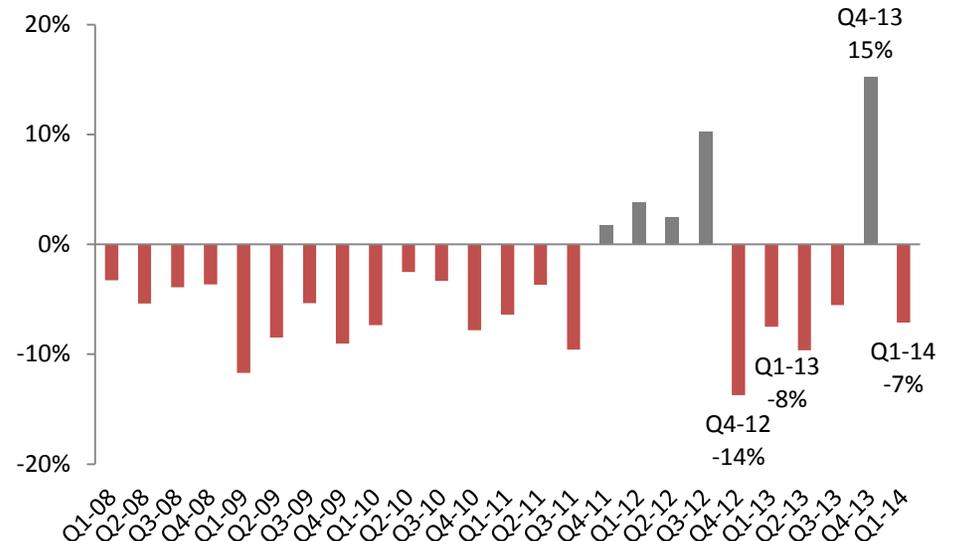


Figure 12: Annual Casino Parking Fee Collections, 2005 through 2014 Year to Date, \$millions



Figure 13: Year over Year (YoY) Change in the Annual Casino Parking Fee Collections, 2006 through 2014 Year to Date

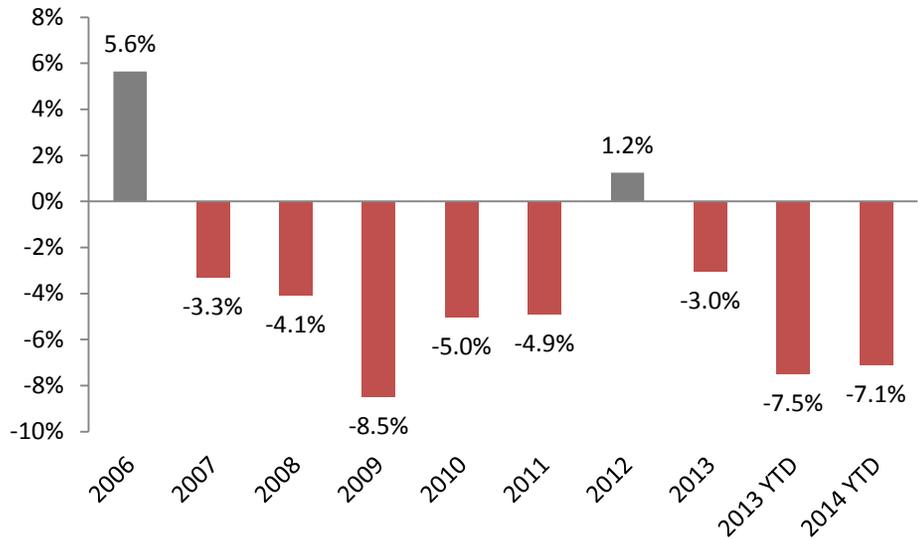
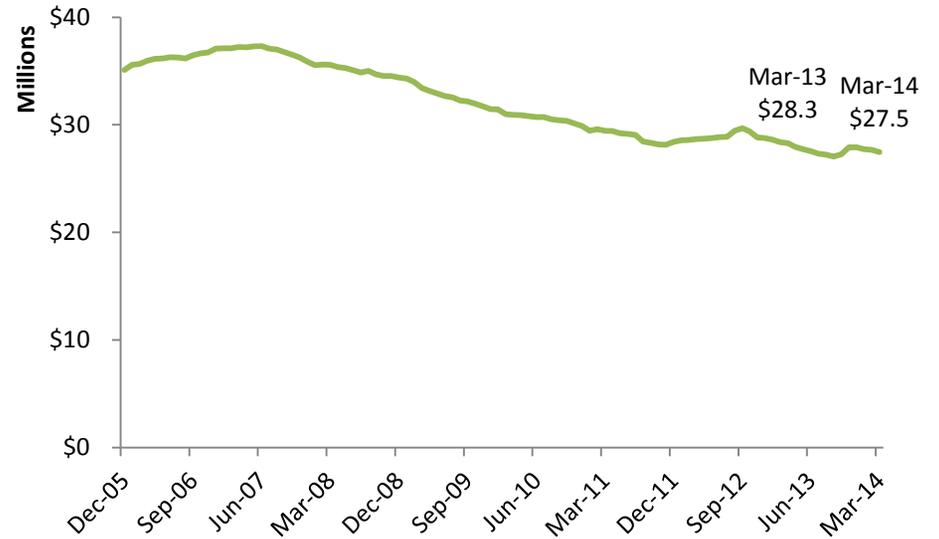


Figure 14: 12 Month Trailing Total for the Casino Parking Fee, December 2005 through March 2014, \$millions





Atlantic County Hotel Occupancy Fee

The Atlantic County Hotel Occupancy Fee is utilized to get a clearer picture of traveler accommodation for the region. While this figure is not Atlantic City specific, there is general consensus that the Atlantic City tourism market impacts the hotel industry throughout the county and thus is a reliable measure of the Atlantic City tourism economy. The figure is released by the NJ Division of Taxation and is described as:

“Legislation enacted in 2003 (P.L. 2003, c. 114) imposed a 7% State Occupancy Fee on the rent for every occupancy of a room in a hotel, motel or similar facility in most New Jersey municipalities, between August 1, 2003 and June 30, 2004. For occupancies on and after July 1, 2004, the Fee was reduced to 5%. A hotel/motel is a building regularly used and kept open for the lodging of guests, including bed and breakfasts, inns, etc. The State Occupancy Fee is imposed on the room rentals that are currently subject to the 7% New Jersey sales tax and is in addition to the sales tax. Special Rate Provisions: Since Newark, Jersey City, Atlantic City, Wildwood, Wildwood Crest, and North Wildwood already impose local taxes or fees on hotel/motel occupancies, the new State Occupancy Fee is imposed at a lower rate in those areas: Newark & Jersey City: State Occupancy Fee is 1%; Atlantic City: State Occupancy Fee is 1%; The Wildwoods: State Occupancy Fee is 3.15%.”

Figure 15 shows the Atlantic County Hotel Occupancy Fee collections from January 2005 through March of 2014. Once again, the figure is very seasonal in nature, with the summer months producing more tax revenue than the off season months. The best month on record for the tax is August of 2013 when \$763 thousand was collected in Hotel Occupancy Fee for Atlantic County. The most recent month, March of 2014 showed a decline from \$411 thousand in March of 2013 to \$372 thousand in the current month (down 10%, see Figure 16).

Indeed, all three months of 2014 showed decreased sales, extending the current streak to five months. Of course, the comparison here is difficult as the comparable months from the prior year (labeled 2012/early 2013) had hotel room sales that were bolstered by Hurricane Sandy recovery efforts. Additionally, the closure of the Atlantic Club casino definitely negatively impacted sales in the first quarter of 2014 (down 12%, see figures 17 and 18).

Figure 15: Atlantic County Hotel Occupancy Fee, January 2005 through March 2014, \$thousands

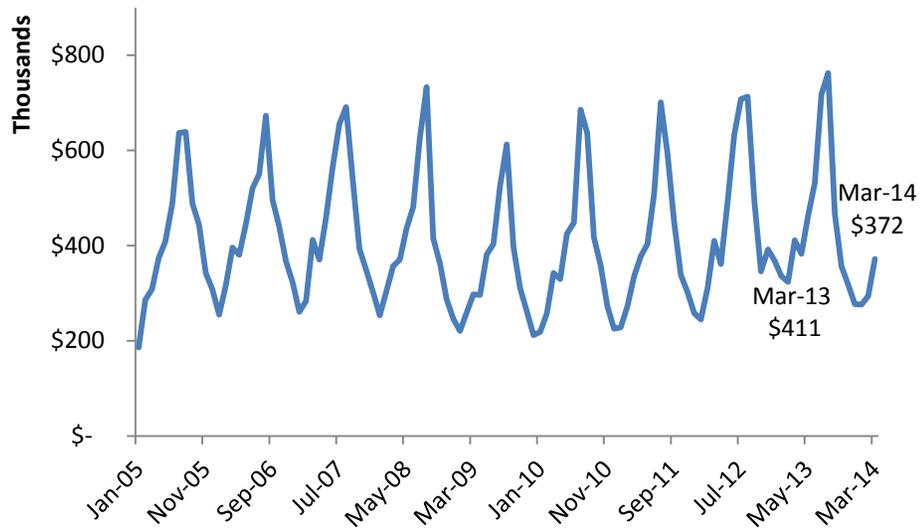


Figure 17: Atlantic County Hotel Occupancy Fee, 1st Quarter 2005 through 1st Quarter 2014, \$millions

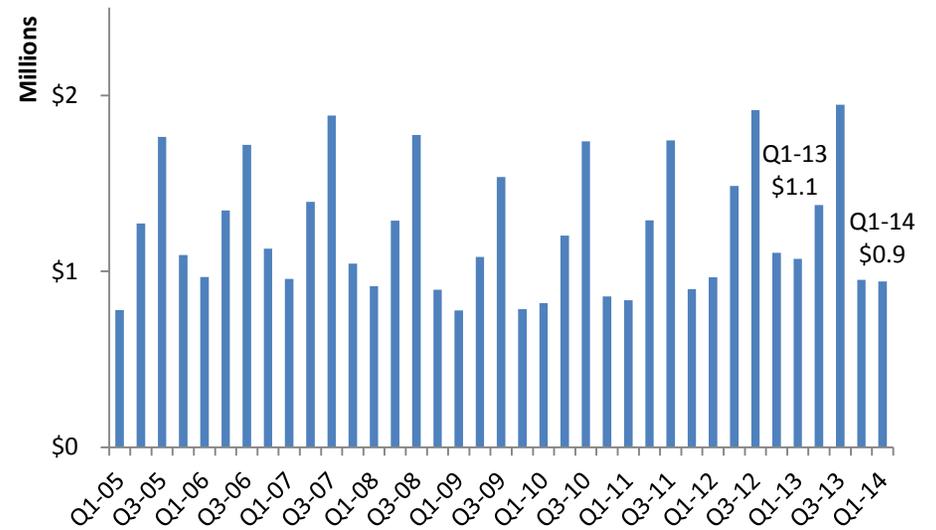


Figure 16: Year over Year (YoY) Change in the Atlantic County Hotel Occupancy Fee, January 2006 through March 2014

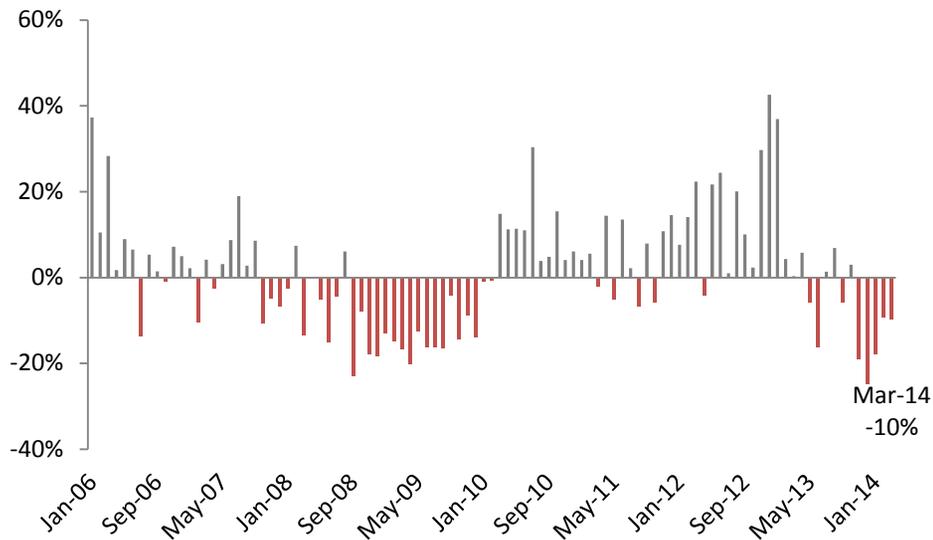


Figure 18: Year over Year (YoY) Change in Quarterly Atlantic County Hotel Occupancy Fee, 1st Quarter 2006 through 1st Quarter 2014

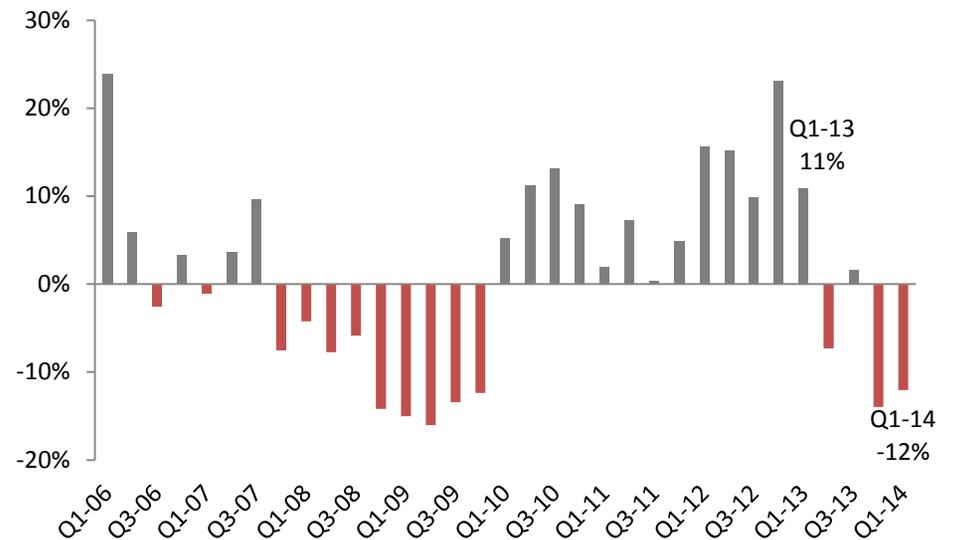


Figure 19: Annual Atlantic County Hotel Fee Collections, 2005 through 2014 Year to Date, \$millions



So, despite four consecutive years of growth in hotel room sales followed by a largely flat 2013, the first quarter of 2014 is bucking this trend (down -12%, see Figures 19 and 20). The twelve month trailing total for the Atlantic County Hotel Occupancy Fee is examined in Figure 21. The twelve months ending March of 2014 saw Atlantic County collecting \$5.2 million in Hotel Occupancy Fee.

Figure 20: Year over Year (YoY) Change in the Annual Atlantic County Hotel Occupancy Fee Collections, 2006 through 2014 Year to Date

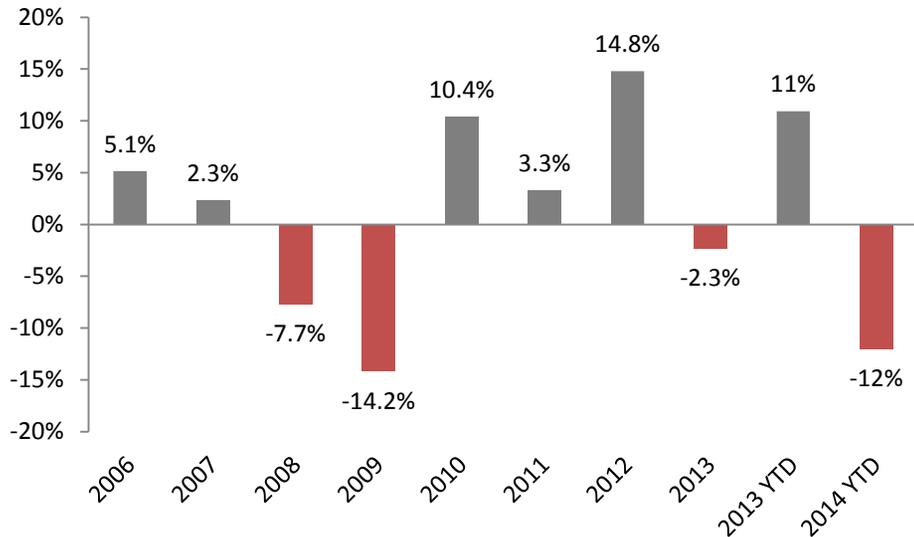
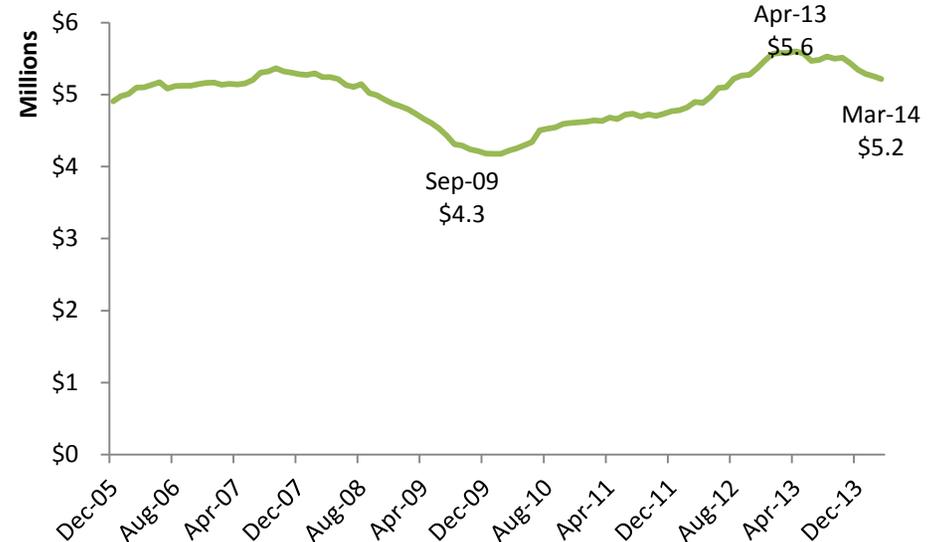


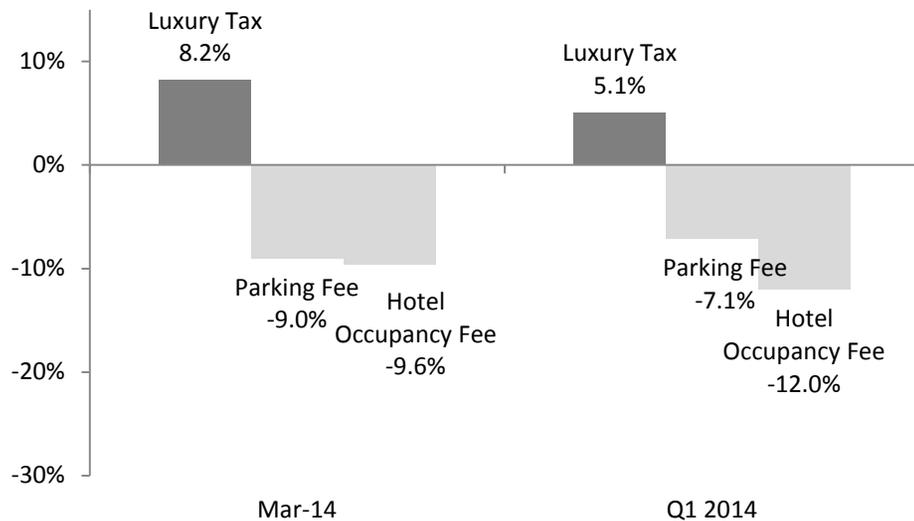
Figure 21: 12 Month Trailing Total for the Atlantic County Hotel Occupancy Fee, December 2005 through March 2014, \$millions



March 2014 Atlantic City Tourism Performance Indicators (AC-TPI) Snapshot

The Lloyd D. Levenson Institute has concluded that these three taxes can serve as an effective proxy for the performance of the tourism economy in Atlantic City. These taxes, or more precisely the Year over Year change in the monthly figures for these taxes, are compiled into an Atlantic City Tourism Performance Index Snapshot at the end of each quarter. A more detailed annual report will be provided to give the longer term picture of what is happening to the Atlantic City tourism economy. In between these reports, however, the Levenson Institute provides a snapshot, on a monthly basis, as to the performance of the Atlantic City tourism economy as shown in Figure 22 below. The goal is to provide key measures with analysis that can describe the results of the resorts current efforts at revitalizing the Atlantic City tourism economy.

Figure 22: March 2014, 1st Quarter 2014 Year over Year Change, Atlantic City Tourism Performance (AC-TPI) Index Snapshot



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